

## Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 AGR-05 CIAE-00 COME-00 EB-07 INR-07

LAB-04 NSAE-00 SP-02 STR-04 TRSE-00 CIEP-01 FRB-03

OMB-01 L-03 SS-15 NSC-05 /068 W

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TO SECSTATE WASHDC PRIORIT 627

LIMITED OFFICIAL USE SEOUL 4232

PASS USDA/FAS D. HUME, K. STEPHENS, D. WILLIAMS

E.O. 11652: N/A

TAGS: EAGR

SUBJ: COTTON CONTRACT PROBLEM

REF: STATE 135509

1. PLEASED TO REPORT THAT THE ROKG HAS JUST FINALIZED ALLOCATION PROCEDURE OF CCC AND USANCE FUNDS SUFFICIENT TO COVER ALL COTTON ON ANNEX A AND B. VIA A SEPARATE TOFAS MESSAGE TO USDA, WE ARE MONDAY SENDING REQUEST FOR REGISTRATION OF 20 MILLION DOLLARS WORTH OF COTTON. ADDITIONAL REQUEST FOR FURTHER REGISTRATIONS WILL BE PROVIDED BY JUNE 18 AND SWAK IS REASONABLY CONFIDENT PERIOD I SCHEDULE OF ANNEX A WILL BE MET INSOFAR AS APPLICATIONS FOR REGISTRATIONS ARE CONCERNED.

2. DOLLARS 85 MILLION OF CCC FUNDS ARE EARMARKED FOR ANNEX A AND DOLLARS 10 MILLION CCC FUNDS FOR ANNEX B FOR A TOTAL OF 95 MILLION CCC FUNDS. SEVEN MILLION FROM LATTER WILL BE AUTHORIZED FOR USE IMMEDIATELY AFTER ANNEX A PERIOD I CONTRACTS ARE COMPLETE AND THE REMAINING THREE MILLION UPON COMPLETION OF THE ENTIRE ANNEX A LIST. NONE OF THE ABOVE IS EARMARKED FOR INTEREST PAYMENTS.

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INTEREST FUNDS HAVE BEEN ALLOCATED SEPARATELY BY THE MINISTRY OF FINANCE.

3. THE UNUSED BALANCE (\$44 MILLION) OF THE PREVIOUSLY

ALLOCATED 50 MILLION OF 12 MONTHS SHIPPERS USANCE, TO BE USED EXCLUSIVELY FOR FINANCING RAW COTTON FOR DOMESTIC USE, WAS INVALIDATED AND THEN RE-ALLOCATED ON THE BASIS OF INDIVIDUAL MILL REQUIREMENT TO COVER OVERDUE CONTRACTS ON ANNEX A.

4. ABOUT \$25 MILLION DOLLARS OF PRIVATE 35 MONTHS USANCE HAVE BEEN AUTHORIZED AND ALLOCATED TO THE MILLS. ABOUT 20PERCENT OF THE USANCE FUNDS IN PARA 3 ABOVE AND 20PERCENT OF THE 25 MILLION CITED ABOVE WILL BE EARMARKED FOR INTEREST. AUTHORIZATIONS NEWLY AVAILABLE TO THE MILLS TOTAL APPROXIMATELY 150 MILLION (INCLUDING CCC FUNDS). THIS SHOULD FINANCE NEARLY ALL REMAINING COTTON ON ANNEX A AND B. MILLS WILL BE ASKED TO UTILIZE CCC FUNDS FIRST.

5. WITH REGARD TO PARA 2 (B) OF REFTEL, SWAK HAS STRONGLY CONVEYED TO MILLS THAT USANCE FUNDS SHOULD BE UTILIZED TO CLEAR UP ANNEX A CONTRACTS PRIOR TO APPLICATION ON ANNEX B LISTS OR POST ANNEX B COTTON. AS TO THE RECENTLY INCREASED MARGIN REQUIREMENT (NOW 40PERCENT) SWAK TODAY ADVISED AGATT THAT THIS REQUIREMENT APPLIES ONLY TO 1 YEAR SHIPPERS USANCE CREDIT UTILIZED FOR COTTON FOR DOMESTIC USE, AS OUTLINED PARA 3 ABOVE. SWAK FURTHERMORE ADVISED THAT 18 MILLION DOLLARS OF ONE YEAR USANCE CREDIT MAY BE UTILIZED BEFORE THE END OF JUNE. THE MINISTRY OF FINANCE WILL ASK KOREAN BANKS TO EXTEND LOANS TO MILLS TO FINANCE UP TO THREE-FOURTH OF THE 40PERCENT MARGIN REQUIREMENT ON THE ONE YEAR USANCE CREDIT THAT HOPEFULLY WILL BE INDUCED FROM OVERSEAS SOURCES. AFTER JULY 1, THE MINISTRY OF FINANCE IS REPORTEDLY CONSIDERING LOWERING THE MARGIN RATE FOR RAW COTTON. THE MARGIN DOES NOT APPLY FOR 35 MONTHS USANCE CREDIT.

6. REGARDING PARA 4 OF REFTEL, VERNACULAR PRESS CARRIED STORY JUNE 7 THAT KOREAN AGENTS OF TWO AMERICAN COTTON SHIPPING FIRMS WERE ARRESTED ON SUSPICION OF MISUSE OF FOREIGN EXCHANGE FUNDS AND VIOLATION OF KOREA'S TAX LAWS. LIMITED OFFICIAL USE  
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WE HAVE HEARD THAT ALL KOREAN COTTON AGENTS ARE UNDER INVESTIGATION. THE ROKG IS CURRENTLY CRACKING DOWN ON TRADERS AND BUSINESSES ENGAGED IN FOREIGN EXCHANGE TRANSACTIONS AND SEVERAL ARRESTS HAVE RECENTLY OCCURRED. THERE IS NO EVIDENCE OF ANY CONNECTION BETWEEN ARREST OF COTTON AGENTS AND COTTON UNDERSTANDING. WILL MONITOR AND REPORT ON THIS MATTER AS IT EVOLVES.  
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